

ROLE OF INDEPENDENT DIRECTORS IN AN INSURANCE COMPANY

Summary

Tan Beng Lee
Director & Group CEO
Great Eastern Holdings Ltd
Singapore

Singapore Listed Companies

In Singapore, the requirement for independent directors is clearly spelt out in the Code of Corporate Governance for Singapore listed companies. All listed companies must have an effective Board comprising people with different backgrounds, diverse experiences and competencies. And independent directors must comprise more than one-third of the Board. The Code is not a prescriptive one - it specifies the best practices but allows companies to deviate as long as there are proper disclosures and explanations.

There is no legislative definition of "independence" in Singapore. There is a broad indication of who does not qualify as an independent director, i.e. someone who has a relationship with the company or affiliates that could interfere or be perceived to interfere with his independent judgment in the best interests of the company.

Independent directors play an important role in ensuring that the company's internal controls and systems safeguard the interest of all stakeholders, especially the minority shareholders. They are usually represented in "watchdog" committees such as Audit Committee, Nominating Committee and Remuneration Committee, to enhance long-term shareholder value.

Direct Insurers Incorporated in Singapore

In life insurance industry, the Regulators place great emphasis on independent directors to protect policyholders, especially in the area of product liability.

In Feb 2003, the Monetary Authority of Singapore (MAS) issued a Consultation Paper to adopt Corporate Governance Guidelines for both banks and direct insurance companies under its proposed Banking Regulations and Insurance Regulations. These Guidelines are stricter and more onerous than the Code for listed companies. They are very prescriptive and specific. For example, the proposed Guidelines require a majority of the Board to be independent, whereas the Code requires only one-third. There is also a stricter interpretation of "independent" director to cover some one who is not connected to the substantial shareholders in any way, including being accustomed or under obligation to act according to the substantial shareholders' wishes.

There is also no level-playing field among insurers – insurers incorporated outside Singapore need not comply with these Guidelines.

The Challenges

There is a shortage of truly independent directors. In particular, for our industry, there is a shortage of directors with sufficient knowledge of actuarial and embedded value concepts to contribute effectively to the Board's discussions.

The evaluation of independence is often subjective. How do we ensure that there is a true independence of mind? Can a director lose his independence with time, after the establishment of friendships, or after he becomes beholden in any way to the substantial shareholders or management in any way?

There is also the need to evaluate “softer” criteria (e.g. the director’s ability to commit time and energy, personality etc) to ensure a good fit.

Lastly, there is the important issue of Integrity. While it is important to observe the Code, what is most important is the **INTEGRITY** of the individual to ensure that he maintains an independent mind when performing his duties as a director.